

Memorandum

*Flex your power!
Be energy efficient!*

To: BILL FACKENTHALL
Chief
Division of Procurement and Contracts

Date: June 12, 2009

File: P3000-380

CLARK PAULSEN
Chief
Division of Accounting

ORIGINAL SIGNED BY:

From: GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: Final Report – CAL-Card Audit

Attached is Audits and Investigations' final audit report on CAL-Card. Your response has been included as part of our final report.

Please provide our office with status reports on the implementation of your audit finding dispositions 60, 180, and 360 days subsequent to the report date. If all findings have not been corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits, at (916) 323-7107, or me at (916) 323-7122.

Attachment

BILL FACKENTHALL and CLARK PAULSEN

June 12, 2009

Page 2

c: Will Kempton, Director
Randell H. Iwasaki, Chief Deputy Director
Cindy McKim, Deputy Director, Finance
Laurine Bohamera, Chief, Internal Audits, Audits and Investigations
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| P3000-380 |
| CAL-Card Audit |
| June 2009 |

Gerald A. Long
Deputy Director
Audits and Investigations
California Department of Transportation

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Summary

Audits and Investigations (A&I) has completed an audit of the CAL-Card program for fiscal year 2007-08 as required by the Memorandum of Understanding (MOU), dated January 1, 1998, with the State Controller's Office (SCO). The purpose of the audit was to assess whether the California Department of Transportation's (Department) CAL-Card program complied with applicable State rules and regulations pertinent to procurement and whether it had appropriate procedures in place to prevent inappropriate transactions from being processed.

Our audit disclosed that the internal controls over the CAL-Card program are adequate to properly process CAL-Card transactions for payment; however, prior internal audit findings remained and recommendations were not fully implemented. We noted the following issues:

- Prohibited Purchases
- CAL-Card Control Weaknesses
- Post Payment Monitoring Deficiencies
- Weaknesses Over Mandatory CAL-Card Training
- Incomplete Reporting of Statement of Account (SOA) Packages Submitted Late

Background

The Department of General Services (DGS) developed the CAL-Card program to improve the efficiency of small purchases made by State departments. The CAL-Card program allows departments to use VISA cards to streamline the procurement process and improve timely delivery of products and services. The Department's use of the CAL-Card program eliminates the lengthy process previously required by several procurement methods, including Purchase Authority Purchase Orders. DGS developed policies and procedures for State agencies to follow when purchasing through the CAL-Card program.

The Department entered into a MOU with SCO, which delegated the responsibility for the review and retention of CAL-Card program purchasing documentation to the Department.

The Department is a participant in the CAL-Card program and established the CAL-Card Handbook to ensure compliance with DGS policies and procedures. The Division of Procurement and Contracts (DPAC) is responsible for the administration of the CAL-Card program. DPAC appoints a CAL-Card coordinator to serve as the contact throughout the Department to assist Cardholders and Approving Officials with CAL-Card policies and procedures. The Division of Accounting (DofA), Office of External Accounts Payable

**Background
(Continued)**

(OEAP), established the CAL-Card Payments Section to process CAL-Card payments.

To assist DPAC and OEAP, the Purchase Card Accounting and Requisition System (PCARS) was implemented in March 2000. PCARS helps simplify the high volume of CAL-Card payments by reducing paperwork and processing time for CAL-Card purchases each month. In addition, PCARS was designed to produce several ad hoc reports with information about CAL-Card purchases made by Cardholders. PCARS also allows the users to electronically process a purchase request. This system has been implemented in all 12 districts and headquarters with the exception of the Equipment Shops. The Equipment Shops are currently in the process of migrating over to PCARS. Until such time that the migration is complete, the Equipment Shops' Cardholders submit their CAL-Card purchase documents to the CAL-Card Payments Section for payment processing.

The Department has approximately 1,745 Cardholders that purchase small goods and services at an estimated \$1.9 - \$7.1 million each month. Most card limits are set at \$5,000 per transaction and \$50,000 per month. However, management has some cards with a limit of \$25,000 per transaction and \$250,000 per month. The US Bank offers rebates for volume and timely payment of VISA transactions and the Department received \$258,946 in rebates in calendar year 2007.

**Objectives,
Scope, and
Methodology**

The purpose of the audit was to determine if controls over the CAL-Card program were adequate to ensure CAL-Card transactions were properly processed and payments were legal and proper. In addition, the audit was performed to satisfy the requirements of the MOU with SCO.

We performed the audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Our audit included tests as we considered necessary for the period of July 2007 to March 2008, to achieve the following objectives:

- To determine if the CAL-Card program's internal controls are adequate to process CAL-Card transactions
- To determine if CAL-Card transactions comply with the CAL-Card Handbook and the MOU requirements
- To review the post payment monitoring and enforcement process
- To determine if prior audit recommendations have been addressed

Conclusion

Our audit disclosed that the internal controls over the CAL-Card program are adequate to properly process CAL-Card transactions for payment; however, prior internal audit findings remained and recommendations were not fully implemented. We noted the following issues:

- Prohibited Purchases
- CAL-Card Control Weaknesses
- Post Payment Monitoring Deficiencies
- Weaknesses over Mandatory CAL-Card Training
- Incomplete Reporting of SOA Packages Submitted Late

**View of
Responsible
Officials**

We requested and received responses from the Chiefs of DPAC and DofA to the findings discussed in this audit report. These officials have, in general, acknowledged the findings and recommendations. Please see Attachments for complete responses.

ORIGINAL SIGNED BY:

GERALD A. LONG
Deputy Director
Audits and Investigations

July 3, 2008
(Last Day of Audit Field Work)

Audit Team

Laurine Bohamera, Chief, Internal Audits
Kevin Yee, Audit Supervisor
Laddavanh Southiyanon, Auditor
David Wong, Auditor
Marie Salvacion, Auditor

FINDINGS AND RECOMMENDATIONS

Finding 1 - Prohibited Purchases

We reviewed 884 Purchase Card Accounting and Requisition System (PCARS) and Equipment Shop (SHOP) transactions from the Division of Accounting's (DofA) claim schedules and found 83 prohibited purchases. Specifically, we noted the following:

- Fourteen purchases were split to avoid exceeding the single purchase limit.
- Eight transactions were for payment of past due invoices.
- One transaction was for prepayment of goods.
- Thirteen transactions were for services that would have required a service contract, since the cost of services exceeded \$5,000 over a 12 month period.
- Eleven transactions were for information technology (IT) goods that did not have Headquarters IT certification.
- Thirty-six transactions were for the purchase of products that require the use of mandatory State contracts.

The CAL-Card Handbook (CCH), Chapter 5, Prohibited/Restricted Uses, identifies prohibited/restricted uses of CAL-Card based on the State Contracting Manual, the Department of General Services (DGS) CAL-Card contract, and other policies and procedures governing State purchasing and contracting. Specifically, it states the following activities are prohibited uses of the CAL-Card:

- Splitting Purchases/Exceeding the Single Purchase Limit
- Past Due Invoice Payments
- Prepayment
- Service Contracts Payments
- IT Charges Without a Justification (IT Justification Form) and Prior Written Authorization by the IT Certification Unit

In addition, the State Administrative Manual, Management Memo 05-11, states that the Department of General Services, through the California Strategic Sourcing Initiative (CSSI), is entering into a series of Statewide Contracts for the procurement of goods and services. Usage of these contracts is mandatory unless otherwise specified in the User Instructions for the contract.

The DofA, Office of External Accounts Payable (OEAP) staff stated that prohibited items are flagged and sent to the Division of Procurement and Contracts (DPAC) for follow-up. According to staff in DPAC's CAL-Card unit, they are understaffed and have other work priorities, which result in delays in reviewing prohibited purchases and taking

corrective action. As a result, the Department runs the risk of losing the CAL-Card program, if Cardholders are allowed to continue making prohibited purchases.

Recommendation We recommend that DPAC:

- Enforce the CCH prohibited/restricted uses by suspending and/or terminating Cardholders, who do not comply with regulations.
- Emphasize the consequences of non-compliance in the CAL-Card training.

We recommend that the DofA clarify with the State Controller's Office (SCO) and DGS the appropriate handling of prohibited purchases identified in the CCH.

DPAC's Response DPAC does not concur with the finding. As of June 30, 2008, DPAC suspended all Approving Officials and Cardholders accounts who did not comply with CAL-Card handbook and training requirements. DPAC increased resources reviewing prohibited purchases to reduce the backlog. DPAC continues to review current processes for opportunities to improve in this area. Please see Attachment 1 for complete responses.

A&I Comments A&I recommends that DPAC continue to educate Cardholders and Approving Officials in the CAL-Card training about the types of prohibited/restricted uses and enforce prohibited/restricted purchases by suspending and/or canceling CAL-Card accounts timely when the Cardholder or Approving Official does not comply with requirements. A&I observed that DPAC's current post payment monitoring process for prohibited purchases is backlogged and not timely, and as a result, has deficiencies as discussed further in Finding 3.

DofA's Response DofA concurs with the recommendation. DofA will contact SCO and DGS to clarify the definition and appropriate handling of prohibited purchases.

Finding 2 - CAL-Card Control Weaknesses CAL-Card transactions were not in compliance with CCH requirements. We reviewed 884 PCARS and SHOP transactions from DofA's claim schedules and noted the following exceptions:

- Purchase requests were prepared after the purchase in 460 instances. The CCH Chapter 3, Making A Purchase, states that approval is necessary before making any purchase, and the approval must be documented in the procurement file.
- A total of 248 purchase requests did not have justification specifying the purpose or benefit to the State. The CCH Chapter 3, Making A

**Finding 2 -
(Continued)**

Purchase, requires that the purchase request be completed with the purchase justified, specifying the benefit to the State.

- There were 440 transactions that did not have a signature in the "Received By" box of the purchase requests and 38 purchase requests did not have the "Received Date" filled in. The CCH Chapter 3, Making A Purchase, requires that Cardholders must accurately and timely validate the receipt of all ordered goods or services delivered by suppliers. The responsible manager is to identify the person accountable for validation of receipt and filling in the "Date Received" and "Received by Signature" areas in PCARS, and on the hard copy of the purchase request form.
- A total of 109 transactions were from a Statement of Account (SOA) package that was submitted late to the OEAP. The CCH Chapter 6, Statement of Account, requires the Approving Official to assemble and send the completed package to OEAP by the 8th of each month.
- Four transactions were from SOA packages that were not signed by the Cardholder or Approving Official. The CCH Chapter 6, Statement of Account, requires that the Approving Official certify by original signature and date on the last page of the SOA, which indicates the package is complete.
- Two purchase requests had invoices with amounts that did not agree to the purchase request amount and forty-six SOA packages did not have a received "Date Stamp." The Caltrans Acquisition Manual Chapter 7, How to Receive, requires each receiving document to include the correct dollar amount and the actual date goods or services were delivered and accepted.
- Forty-six transactions lacked invoice detail to identify what had been purchased. The CCH Chapter 3, Making A Purchase, requires that the Cardholder must obtain an itemized receipt or invoice directly from the supplier.
- Six SOA packages were signed by an unauthorized or non-designated Cardholder and/or Approving Official. The CCH Chapter 2, CAL-Card Administration & Oversight, allows for Cardholder Delegates and Approving Official Delegates to access PCARS and process paper work in the absence of the Cardholder.
- Three packages were missing all supporting documentation. The Memorandum of Understanding (MOU) between the Department and the State Controller's Office (SCO) requires that the Department retain all documentation relative to CAL-Card purchasing program transactions and that the documentation be retained in a central location in Sacramento.
- Six transactions for inventoriable items were not reported on a Materiel Adjustment Report (MAR). The CCH Chapter 3, Making A Purchase, states that a MAR will be required if the purchase was made for inventoriable items.

**Finding 2 -
(Continued)**

According to CCH Chapter 2.3, DofA, VISA Payments Section, is responsible for auditing and preparing all purchasing documents into claim schedules and sending them to SCO for payment. Responsibilities include reviewing submitted documents for accuracy and completeness, and following-up on missing documentation. DofA staff indicated that detailed supporting documentation is maintained by the divisions and districts, rather than in a central location as required by the MOU with SCO. As a result, they do not have easy access to supporting documentation and are non-compliant with the MOU.

The Department runs the risk of unauthorized purchases and losing the CAL-Card program delegation if Cardholders and the responsible divisions and districts are not in compliance with the CAL-Card procedures and the provisions of the MOU with SCO. In addition, the potential exists for CAL-Card misuse, where the Approving Official can charge without the Cardholder's knowledge. This condition results in inadequate separation of duties and poses the risk of potential misuse of the Cardholder account.

Recommendation

We recommend that:

- Approving Officials and DofA carefully review SOA packages to ensure that packages are complete before processing for payment.
- DPAC remind CAL-Card Cardholders and Approving Officials of the requirements in the CCH.
- Supporting documentation be maintained in a central location in Sacramento, as required by the MOU with SCO, or that the MOU be amended to allow for documentation to be retained by the procuring divisions and districts.

DPAC's Response

DPAC continues training Cardholders and Approving Officials, emphasizing the importance to document the purpose or benefit to the State of all purchase requests. DPAC emphasizes that SOA are due to Accounting by the 8th of the month. The CCH will be revised with instructions for the Cardholders to enter the received and received by date in PCARS. Please see Attachment 1 for complete responses.

DofA's Response

DofA concurs with the recommendation. DofA will immediately remind staff of review procedures related to signatures, date stamps, keeping copies of all purchase requests submitted, and supporting documents. However, regarding the third recommendation, DofA interprets the current MOU to mean they are to retain in a central location all documents needed to process the payment. The documentation cited in the Audit Report is not needed for processing of the payment, but rather is supporting material the Cardholder uses in

making the purchase. As such, they believe these documents do not need to be retained in a central location. DofA will hold discussions with DPAC and SCO regarding the MOU to clarify if the supporting documentation is to be maintained in Sacramento versus in the procuring divisions and districts.

**Finding 3-
Post Payment
Monitoring
Deficiencies**

DPAC is not following its intervention procedures for post payment monitoring. Our review of DPAC's post payment monitoring disclosed the following deficiencies:

- Prohibited purchases are not always being tracked on DPAC's Prohibited Review Report. We selected 15 out of the 83 prohibited purchases noted in Finding 1 for use in comparison with DPAC's Fiscal Year (FY) 07/08 Prohibited Review Report and noted that four were not being tracked.
- As of June 2008, DPAC was five months backlogged in tracking the FY 07/08 Prohibited Review Report. We noted 106 out of 430 transactions with monthly billing cycles from August 2007 to January 2008 had no follow-up action.
- For the February 2008 billing cycle, 72 transactions had not been reviewed by DPAC, nor assigned to the respective reviewers.
- DPAC does not follow the program oversight provision of the MOU with SCO. The provision requires the Department to notify SCO within 15 days of any misuse of the CAL-Card, including utilizing the card for unauthorized or improper purchases, and exceeding credit card dollar limitations, and the corrective action that was taken.
- The PCARS 5110 Report, used by DPAC to identify Cardholders with CAL-Card service charges over \$5,000, is inaccurate and incomplete. Currently, DPAC uses the Standard Industry Codes (SIC) 7000 through 8999 to create this report. However, we noted three service vendors with SIC's other than 7000 through 8999 that had over \$5,000 of CAL-Card charges for services provided as noted below:
 - a) Aramark provided uniform cleaning services.
 - b) EMU Express provided janitorial services.
 - c) Power Clean provided janitorial services.

In addition, the PCARS 5110 Report is based on a fiscal year, rather than transactions for the immediate preceding twelve months, which may result in inaccurate information. The CCH Chapter 5, Prohibited/Restricted Uses, states in part, "Services that exceed \$5,000 by law require advertising in the California State Contracts Register, competitive bidding, and a written contract . . . services that exceed

**Finding 3-
(Continued)**

\$5,000 in twelve (12) months, from any single vendor (for the same type of services), are otherwise prohibited.”

It should be noted that our prior audit reports, P3000-364 (dated May 2, 2005) and P3000-369 (dated June 11, 2007), noted a similar finding with post payment monitoring.

Good business practice dictates that CAL-Card prohibited purchases are reviewed and processed in a timely manner. In addition, the MOU with SCO requires the Department to take appropriate corrective action immediately upon discovering misuse and to notify SCO within 15 days of misuse and the corrective action taken.

DPAC has experienced delays in reviewing prohibited purchases due to a shortage of staff and high workload. The Department runs the risk of losing the CAL-Card program delegation if DPAC's post payment monitoring processes are deemed inadequate by SCO or out of compliance with the provisions of its MOU.

Recommendation

We recommend that DPAC:

- Establish a reasonable time period criteria for post payment monitoring, complete reviews within the established time period, and monitor progress to ensure continued compliance.
- Suspend and/or cancel accounts of Cardholders who make recurring prohibited purchases.
- Notify SCO within 15 days of discovery of CAL-Card misuse and the corrective action taken.
- Consider modifying the PCARS 5110 report to capture all Cardholders with CAL-Card services charges over \$5,000; and to report transactions based on the immediate preceding 12 months, rather than on the current fiscal year basis.
- Consider performing a cost-benefit analysis on the costs that would be saved by the Department to adequately staff control functions and prepare a Budget Change Proposal, if appropriate.

DPAC's Response

DPAC revised the review process and reorganized staff to improve workload coverage. DPAC continues to suspend and cancel cardholder accounts which violate program regulations. Progress is being made to improve the process of notifying SCO of CAL-Card misuse. Implementation of EFIS may impact or delay making changes to the PCARS system and the PCARS 5110 report. DofA is working with SCO to define reporting requirements for CAL-Card misuse in the MOU. Please see Attachment 1 for complete responses.

**Finding 4 -
Weaknesses Over
Mandatory
CAL-Card
Training**

The mandatory CAL-Card training is not always being completed. As of June 30, 2008, we determined that 8 percent (137 of 1,745) of all active Cardholders and 9 percent (75 of 834) of all active Approving Officials had not completed the mandatory CAL-Card refresher training course.

The CCH Chapter 1.13, Training, requires Cardholders and Approving Officials to attend a refresher course every three calendar years.

The lack of training increases the risk of improper CAL-Card usage.

Recommendation

We recommend that DPAC enforce the CCH training requirements.

DPAC's Response

Completed. Between October 2007 and June 2008, DPAC advised all Approving Officials and Cardholders of the training requirement outlined in Section 1.13 of the CAL-Card Handbook. On June 30, 2008, DPAC suspended all Approving Officials and Cardholders' accounts that had not completed the required training. DPAC is evaluating the benefits of introducing a refresher training course that will require all Approving Officials and Cardholders to review on an annual basis to improve compliance with CAL-Card regulations.

**Finding 5 -
Incomplete
Reporting of
Statement of
Account Packages
Submitted Late**

DofA prepares a Late Transactions Report (LTR) to assist DPAC with its monitoring responsibilities for SOA packages submitted late. Our review of the 109 late transactions, noted in Finding 2, revealed that the LTR did not capture 96 of the SOA transactions that were submitted late.

The CCH Chapter 8.1, Late or Incomplete Submittals, requires the Cardholder and Approving Official to submit SOA packages and PCARS approvals to the DofA, VISA Payments Section, no later than the 8th of the month following the statement date, or on the last working day prior, if the 8th falls on a weekend or holiday.

DofA staff process a high volume of CAL-Card transactions during each billing cycle. During the audit timeframe, DofA staff stated that there were new accounting staff that were not aware of late SOA package criteria. As a result, they did not take the action necessary to remain in compliance with CAL-Card policies for late SOA submittals. When DPAC is not notified of SOA packages that are submitted late, they cannot enforce the late intervention policies.

Recommendation

We recommend that DofA capture all late SOA packages on its LTR and report them to DPAC monthly.

DofA's Response DofA concurs with this finding. Accounting will immediately provide training to staff regarding the importance of reporting late SOA packages to DPAC, on a timely basis.

ATTACHMENT 1

DIVISION OF PROCUREMENT AND CONTRACT'S RESPONSE TO THE DRAFT REPORT

Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: May 1, 2009

File: P3000-380

ORIGINAL SIGNED BY:

From: MEGAN RETTKE
Acting Chief
Division of Procurement and Contracts

Subject: Response to Draft Audit Report on CAL-Card Program

This is the Division of Procurement and Contracts (DPAC) Response to the CAL-Card Draft Audit Report dated April 8, 2009.

Finding 1 – Prohibited Purchases

Recommendations:

- Enforce the CCH prohibited/restricted uses by suspending and/or terminating Cardholders, who do not comply with regulations.
- Emphasize the consequences of non-compliance in the CAL-Card training.
- Ensure that prohibited purchases, such as past due invoices, prepayments, and non-compliance with mandatory State contracts, are not processed.

DPAC Response: DPAC does not concur with the finding. On October 6, 2008, the Director issued a memorandum to all Deputy Directors, District Directors and Division Chiefs on the importance of complying with Approving Officials (AO) and Card-holder (CH) CAL-Card training requirements. As of June 30, 2008, DPAC suspended all AO and Cardholders (CH) accounts who did not comply with CAL-Card handbook and training requirements. DPAC increased resources reviewing prohibited purchases to reduce the backlog. DPAC continues to review current processes for opportunities to improve in this area.

Finding 2 –CAL-Card Control Weakness

Recommendations:

- Approving Officials and Division of Accounting (DofA) carefully review SOA packages to ensure that packages are complete before processing for payment.
- DPAC remind CAL-Card Cardholders and Approving Officials of the requirements in the CAL-Card Handbook.
- Supporting documentation be maintained in a central location in Sacramento, as required by the MOU with SCO, or that the MOU be amended to allow for documentation to be retained by the procuring divisions and districts.

DPAC Response: DPAC continues training CH and AO, emphasizing the importance to document the purpose or benefit to the State of all purchase requests. DPAC emphasizes that Statement of Accounts (SOA) are due to Accounting by the 8th of the month. The CAL-Card Handbook will be revised with instructions for CH to enter the received and received by date in PCARS. Other supporting documentation will include itemize receipts, invoices or charge slips. It is anticipated that the revised CAL-Card Handbook will be released in July 2009.

Finding 3 – Post Payment Monitoring Deficiencies

Recommendations:

- Establish a reasonable time period criteria for post payment monitoring, complete reviews within the established time period, and monitor progress to ensure continued compliance.
- Suspend and/or cancel accounts of Cardholders who make recurring prohibited purchases.
- Notify State Controller Office (SCO) within 15 days of discovery of CAL-Card misuse and the corrective action taken.
- Consider modifying the PCARS 5110 report to capture all Cardholders with CAL-Card services charges over \$5,000: and to report transactions based on the immediate preceding 12 months, rather than on the current fiscal year basis.
- Consider performing a cost-benefit analysis on the costs that would be saved by the department to adequately staff control functions and prepare a Budget Change Proposal, if appropriate.

DPAC Response: The CAL-Card unit revised the review process and reorganized staff to improve workload coverage. DPAC continues to suspend and cancel cardholder accounts which violate programs regulations. Progress is being made to improve the process of notifying SCO of CAL-Card misuse. DPAC reviewed the recommendation to revise the PCARS 5110 report, however, implementation of EFIS may impact or delay making changes to the PCARS system. DofA may request SCO to alter the MOU to clearly define reporting requirements on CAL-Card misuse. Presently it is unclear when the 15-day notification requirement starts. DPAC is conducting a workload study to determine the need for additional resources, however, the implementation of EFIS may change the procurement process.

Finding 4 – Weaknesses over mandatory CAL-Card Training

Recommendations: A & I recommend that DPAC enforce the CAL-Card Handbook training requirements.

DPAC Response: Complete. Between October 2007 and June 2008, DPAC advised all AO and CH of the training requirement outlined in Section 1.13 of the CAL-Card Handbook. On June 30, 2008, DPAC suspended all AO and CH accounts that had not completed the required training. DPAC is evaluating the benefits of introducing a refresher training course that will require all AO and CH to review on an annual basis to improve compliance with CAL-Card regulations.

Finding 5 – Incomplete Reporting of Statement of Account Packages Submitted Late

Recommendation: A & I recommend that DofA capture all late SOA packages on its Late Transaction Reports (LTR) and report them to DPAC monthly.

DPAC Response: Complete. DofA concurs with this finding. Within the next 7 days DofA will provide training to staff reminding them of the importance of reporting late SOA packages to DPAC on a timely basis.

c: MRettke
CPennington
RPile
DPhillips
MNewmarch

ATTACHMENT 2

DIVISION OF ACCOUNTING'S RESPONSE TO THE DRAFT REPORT

Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Division of Audits and Investigation
ORIGINAL SIGNED BY:

Date: June 3, 2009

File: P3000-380

From: CLARK PAULSEN
Chief
Division of Accounting

Subject: CAL-Card Audit - P3000-380

The Division of Accounting (Accounting) received the Draft Audit Report, CAL-Card Audit – P3000-380, dated April 8, 2009. As discussed in the exit conference held April 16, 2009, the following is our response to the findings:

Finding 1 – Prohibited Purchases

We concur with the recommendation. Accounting will contact SCO and DGS to clarify the definition and appropriate handling of prohibited purchases.

Finding 2 – CAL-Card Control Weaknesses

We concur with the first recommendation. Accounting will immediately remind staff of review procedures related to signatures, date stamps, keeping copies of all purchase requests submitted, and supporting documents.

Regarding the third recommendation, we concur that the MOU should be amended to clarify the supporting documentation to be maintained in Sacramento versus in the procuring divisions and districts. Accounting interprets the current MOU to mean we are to retain in a central location all documents needed to process the payment. The documentation cited in the Audit Report is not needed for processing of the payment, but rather is supporting material the cardholder uses in making the purchase. As such, we believe these documents do not need to be retained in a central location. Accounting will hold discussions with DPAC and SCO regarding the MOU update.

GERALD A. LONG

June 3, 2009

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Finding 5 – Incomplete Reporting of Statement of Account Packages Submitted Late

We concur with this finding. Accounting will immediately provide training to staff regarding the importance of reporting late SOA packages to DPAC on a timely basis.

Should you have any questions regarding this response, please contact Katrina Kimber at (916)227-9055.

c: CMcKim, Chief Financial Officer

GKong, Chief – Office of External Accounts Payable, Division of Accounting

KKimber, Chief – Commodity & CAL-Card Payments Branch, Division of Accounting

NFelcher, Audit Coordinator - Division of Accounting

RTakao, Audit Coordinator - Division of Audits & Investigation